

MONTGOMERY WARD

Sixty-Ninth Annual Report

Twelve Months Ended

January 31

1941

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MONTGOMERY WARD & CO.
INCORPORATED
(AN ILLINOIS CORPORATION)

Sixty-Ninth Annual Report

Twelve Months Ended January 31, 1941

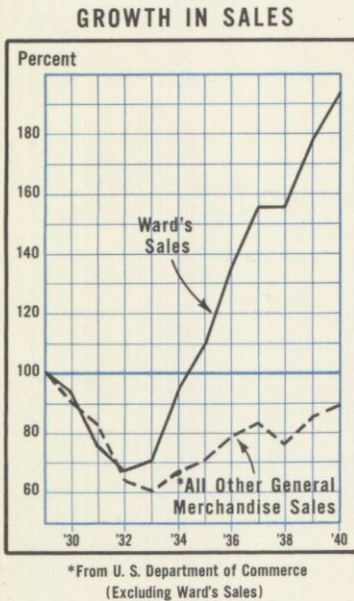
Chicago, March 19, 1941

To the Shareholders of

Montgomery Ward & Co.:

SALES

Net sales for the year ended January 31, 1941 were \$515,910,915—the largest in the company's history, and \$41,028,883 or 8.6% more than for the preceding year. Both the retail and mail order divisions contributed to the increase in sales, and time payment sales continued to show a proportionately greater increase than cash sales.



The accompanying chart shows the twelve-year growth of the company's sales—currently nearly twice 1929 sales—as compared with the trend of the nation's combined mail order and retail sales, which are reported at still below 1929 levels.

Of the year's growth 2.3% is due to expansion in number of retail stores, of which there were 650 in operation at the end of 1940. There were 531 stores at the close of 1929, and this number had been reduced through the reorganization program to 489 by early 1934.

EARNINGS

Profits before income and excess profits taxes were \$35,083,017, or 6.8% of sales, and were also the largest in the company's history, being \$772,372 or 2.3% greater than the preceding year. All of the mail order houses and 98.5% of the retail stores operated profitably during the year.

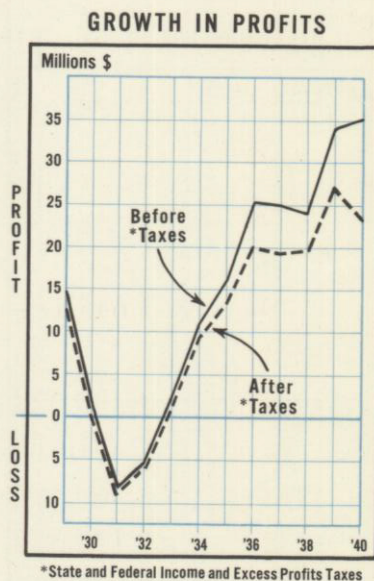
The accompanying chart illustrates the earnings growth of the company over the past twelve years and the effect of the increasing tax burden on the final net earnings.

Net profits after income taxes were \$23,028,017, equivalent to \$4.14 per common share after deducting dividends paid on the Class "A" stock, which is a return on capital and surplus of 11%. These earnings compare with \$27,010,645 for the preceding year, a decline of \$3,982,628 or 77 cents per common share, which is more than accounted for by an increase of 91 cents per share in income taxes.

Dividends paid during the year amounted to \$11,845,172, of which the Class "A" shareholders received \$1,410,878 and the common shareholders \$10,434,294, or \$2 per share—the same amount as was paid during the previous fiscal year.

TAXES

The additional taxes imposed by Congress during the year increased the normal tax rate from 18% of earnings to 24%, and added an "excess profits" tax of 50% on earnings after normal taxes and other



credits. The provision for Federal excess profits tax has been computed on the "average earnings" basis under the amendment of the Act approved March 7, 1941.

Considering all forms of taxes borne by the company, the 1940 tax burden was nearly one and one-half times that of the preceding year—amounting to \$18,035,700 or 44% of earnings before these taxes. The company also collected \$4,798,570 from its customers and paid this amount to those states which imposed various forms of taxes on sales. Thus the company was obligated to governmental agencies for taxes of \$22,834,270 on the year's business.

The following table shows the twelve-year trend of taxes charged against company profits, tax cost per share of common stock, and the net earnings per share after taxes. It also shows the amounts of taxes on sales to customers paid the states in each of those years.

YEAR	TAXES CHARGED AGAINST COMPANY	TAX COST PER SHARE	NET EARNINGS PER SHARE AFTER TAXES	SALES TAXES PAID BY CUSTOMERS
1929	\$ 2,291,311	\$.44	\$2.30	\$ —
1930	1,643,174	.31	.19*	—
1931	1,515,276	.29	1.94*	—
1932	1,384,604	.27	1.36*	—
1933	1,604,810	.31	.16	344,353
1934	3,500,347	.67	1.49	1,142,637
1935	5,175,095	.99	2.32	2,293,340
1936	7,668,995	1.47	3.60	3,001,323
1937	10,066,359	1.92	3.41	3,658,906
1938	9,153,898	1.75	3.50	3,932,149
1939	12,722,300	2.43	4.91	4,221,888
1940	18,035,700	3.46	4.14	4,798,570

*Indicates loss.

FINANCIAL CONDITION

Earnings retained as additional working capital were adequate to finance the added time payment sales and increased inventory requirements.

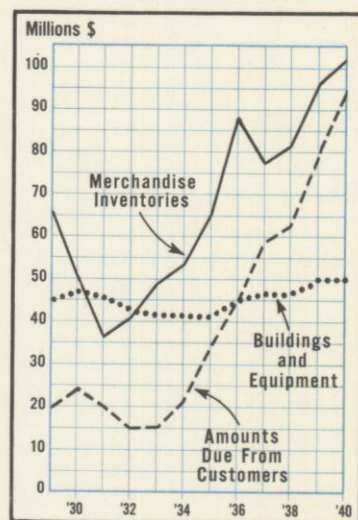
During the years 1927 to 1932 the company sold materials for 2,872 homes on time payment. During the depression years defaults of these obligations brought 1,834 homes into company ownership. These properties were rented and where possible sold until, at the beginning of 1940, the company owned 777 repossessed homes and 1,040 mortgages and land contracts. These holdings were almost entirely liquidated during the year and the subsidiary which conducted these operations was discontinued.

Time payment accounts with customers are in excellent condition and delinquencies are at a low rate. Reserves are maintained on a more conservative basis than the loss experience justifies.

Merchandise inventories were 5% higher than a year ago despite an 8% sales increase, reflecting a well controlled buying program considering that current stocks include a wider selection of quality merchandise.

Net working capital has increased substantially over the past twelve years. The company's policy of leasing instead of owning its stores has held investment in real estate to a relatively low level as shown in the above chart.

GROWTH IN MAJOR ASSETS



The company expended \$6,042,000 during the year for new stores and for enlargement and improvement of existing operations. In addition to a large department store in Detroit, thirty-one stores were put in operation in cities new to the company, including seventeen department stores and fourteen stores carrying hardware and household lines. Seven stores were moved to larger quarters and thirty-six were expanded and modernized.

The purchase by the company of the seven-story Sprague-Warner building adjoining its Chicago property will provide 450,000 square feet of greatly needed warehouse and office facilities.

The company's present attitude in the matter of construction is conservative.

Respectfully submitted,

SEWELL L. AVERY,

President

Montgomery Ward

Balance Sheet —

ASSETS

Current Assets:

Cash (less treasurer's drafts outstanding)		\$ 16,413,449.52
Receivables—		
Customers' time payment accounts (approximately \$7,200,000 maturing after one year).....	\$ 101,160,885.35	
Customers' charge and other accounts.....	4,648,127.75	
Due from suppliers, claims receivable, etc.....	1,896,110.02	
	<u>\$ 107,705,123.12</u>	
Less—Reserves for doubtful accounts, collection expense, etc.....	12,989,206.08	94,715,917.04
Merchandise inventories (priced at the lower of cost or market).....		<u>101,710,763.19</u>
Total current assets.....		<u>\$ 212,840,129.75</u>

Investments, etc. (including \$216,345 of securities deposited under self-insurance agreements) at cost, less reserves.....		856,717.66
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Prepaid Catalog Costs and Expenses:

Catalog costs, paper stock, etc.....	\$ 5,257,171.05	
Supplies, insurance, etc.....	<u>3,100,125.33</u>	8,357,296.38

Fixed Assets (at cost, less depreciation reserves):

Land.....	\$ 6,163,039.47	
Buildings.....	\$35,656,392.20	
Fixtures and equipment. 31,806,143.10		
	<u>\$ 67,462,535.30</u>	
Less—Reserves for depreciation.....	29,922,264.64	37,540,270.66
Leasehold improvements (less amortization).....	<u>5,919,749.73</u>	<u>49,623,059.86</u>
		<u><u>\$ 271,677,203.65</u></u>

& Co., Incorporated

January 31, 1941

LIABILITIES

Current Liabilities:

Accounts payable.....	\$ 22,043,017.56	
Due customers.....	<u>3,115,009.36</u>	\$ 25,158,026.92
Accrued expenses and taxes—		
Salaries, wages, extra compensation, other operating expenses, etc.....	\$ 7,165,023.19	
Personal property, real estate, state income and sundry taxes.....	4,513,759.08	
Federal income tax (subject to final determination by Treasury Depart- ment).....	<u>12,525,947.49</u>	24,204,729.76
Total current liabilities.....		<u>\$ 49,362,756.68</u>

Reserve for Self-insurance.....	1,132,067.31
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Capital Stock and Surplus:

Capital stock—

Authorized—

Class "A"—205,000 shares of
no par value, \$7 per share
cumulative dividends, non-
callable and entitled in
liquidation to \$100 per share

Common—6,000,000 shares of
no par value

Issued (stated value)—

Class "A"—205,000 shares	}.....	\$ 149,288,340.08
Common—5,217,147 shares		

Earned surplus.....	<u>72,146,716.08</u>
	<u>\$ 221,435,056.16</u>

Less—Treasury stock—

Class "A"—3,446 shares.....	<u>252,676.50</u>	221,182,379.66
		<u><u>\$ 271,677,203.65</u></u>

Montgomery Ward & Co., Incorporated

COMPARATIVE INCOME ACCOUNT FOR THE YEARS ENDED JANUARY 31, 1941 AND 1940

	<i>Year Ended January 31</i>	
	<i>1941</i>	<i>1940</i>
Net sales.....	\$ 515,910,915.00	\$ 474,882,032.00
Deduct—		
Cost of goods sold, selling and general expenses, and all taxes other than income taxes.....	\$ 477,479,917.89	\$ 437,076,988.45
Depreciation of fixed properties.....	2,949,028.93	3,137,406.33
Amortization of leasehold improvements	398,951.24	356,992.32
	<u>\$ 480,827,898.06</u>	<u>\$ 440,571,387.10</u>
Net profit before Federal and state income and excess profits taxes..	\$ 35,083,016.94	\$ 34,310,644.90
Provision for Federal and state income and excess profits taxes—		
Federal and state income taxes.....	\$ 9,885,000.00	\$ 7,300,000.00
Excess profits taxes.....	2,170,000.00	—
	<u>\$ 12,055,000.00</u>	<u>\$ 7,300,000.00</u>
Net profit.....	<u>\$ 23,028,016.94</u>	<u>\$ 27,010,644.90</u>

EARNED SURPLUS ACCOUNT FOR THE YEAR ENDED JANUARY 31, 1941

Balance January 31, 1940.....	\$ 60,963,871.14
Net profit for the year ended January 31, 1941.....	23,028,016.94
Total.....	\$ 83,991,888.08
Deduct—	
Dividends on Class "A" stock—\$7.00 per share.....	\$ 1,410,878.00
Dividends on common stock —\$2.00 per share.....	10,434,294.00
Balance January 31, 1941.....	<u>\$ 72,146,716.08</u>

ARTHUR ANDERSEN & CO.

135 SOUTH LASALLE STREET
CHICAGO

To the Board of Directors,

Montgomery Ward & Co., Incorporated:

We have examined the balance sheet of MONTGOMERY WARD & Co., INCORPORATED (an Illinois corporation) as at January 31, 1941, and the statements of income and surplus for the year ended that date for the company and for a subsidiary liquidated during the year. In connection therewith we have examined or tested accounting records of the company and other supporting evidence and have reviewed the system of internal control and the accounting procedures of the company by methods, at times, and to the extent we deemed appropriate, but we did not make a detailed audit of the transactions. We made a similar examination for the preceding year.

In our opinion the accompanying balance sheet and related statements of income and surplus fairly present the financial position of the company at January 31, 1941 and the results of its operations for the two years ended that date, in conformity with generally accepted accounting principles consistently maintained by the company during the period.

March 10, 1941

ARTHUR ANDERSEN & Co.

Montgomery Ward

COMPARISON OF

January 31

1941

1940

ASSETS

Current Assets:

Cash	\$ 16,413,449.52	\$ 14,396,411.78
Receivables, less reserves	94,715,917.04	78,880,212.23
Merchandise inventories	101,710,763.19	96,323,612.35
Total current assets	\$ 212,840,129.75	\$ 189,600,236.36
Investments, etc.	856,717.66	5,234,915.76
Prepaid Catalog Costs and Expenses . .	8,357,296.38	7,153,715.14
Fixed Assets, less depreciation reserves . .	49,623,059.86	49,848,028.48
	<u>\$ 271,677,203.65</u>	<u>\$ 251,836,895.74</u>

LIABILITIES

Current Liabilities	\$ 49,362,756.68	\$ 40,704,948.96
Reserve for Self-insurance	1,132,067.31	1,132,412.06
Capital Stock and Surplus:		
Capital stock issued (stated value) . . .	149,288,340.08	149,288,340.08
Less—Treasury stock	252,676.50	252,676.50
Earned surplus	72,146,716.08	60,963,871.14
	<u>\$ 271,677,203.65</u>	<u>\$ 251,836,895.74</u>

Net Working Capital	<u>\$ 163,477,373.07</u>	<u>\$ 148,895,287.40</u>
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& Co., Incorporated

BALANCE SHEETS

January 31

1939	1938	1937	1936
\$ 24,392,658.32	\$ 18,515,250.97	\$ 17,130,892.06	\$ 15,220,170.97
62,593,190.86	57,353,768.79	44,355,143.10	33,659,387.88
81,494,245.14	77,361,847.55	87,174,188.20	65,435,102.26
<u>\$ 168,480,094.32</u>	<u>\$ 153,230,867.31</u>	<u>\$ 148,660,223.36</u>	<u>\$ 114,314,661.11</u>
6,012,450.51	6,648,496.54	7,257,670.07	8,109,448.27
6,655,355.50	6,412,777.25	5,912,666.46	4,751,844.01
46,683,089.82	46,896,602.03	44,851,570.02	41,508,482.78
<u>\$ 227,830,990.15</u>	<u>\$ 213,188,743.13</u>	<u>\$ 206,682,129.91</u>	<u>\$ 168,684,436.17</u>
\$ 31,901,197.85	\$ 27,675,902.29	\$ 29,885,832.91	\$ 17,631,525.14
1,095,730.48	1,087,136.83	1,004,359.22	971,032.88
149,288,340.08	149,288,340.08	148,031,940.08	123,202,620.08
252,676.50	252,676.50	252,676.50	252,676.50
45,798,398.24	35,390,040.43	28,012,674.20	27,131,934.57
<u>\$ 227,830,990.15</u>	<u>\$ 213,188,743.13</u>	<u>\$ 206,682,129.91</u>	<u>\$ 168,684,436.17</u>
<u>\$ 136,578,896.47</u>	<u>\$ 125,554,965.02</u>	<u>\$ 118,774,390.45</u>	<u>\$ 96,683,135.97</u>

Montgomery Ward & Co., Incorporated

GENERAL OFFICES
619 West Chicago Avenue
CHICAGO, ILLINOIS

MAIL ORDER HOUSES

Albany, N. Y.	Denver, Colo.	Oakland, Calif.
Baltimore, Md.	Fort Worth, Tex.	Portland, Ore.
Chicago, Ill.	Kansas City, Mo.	St. Paul, Minn.

RETAIL STORES AND MAIL ORDER SALES UNITS

STATE	RETAIL STORES	MAIL ORDER SALES UNITS	STATE	RETAIL STORES	MAIL ORDER SALES UNITS
Alabama.....	2	—	New Hampshire..	4	3
Arizona.....	2	—	New Jersey.....	3	—
Arkansas.....	5	1	New Mexico....	6	2
California.....	58	5	New York.....	25	21
Colorado.....	12	6	North Carolina..	14	2
Connecticut....	5	2	North Dakota...	9	—
Delaware.....	—	1	Ohio.....	31	4
Florida.....	5	6	Oklahoma.....	18	10
Georgia.....	1	2	Oregon.....	15	3
Idaho.....	7	—	Pennsylvania...	34	6
Illinois.....	52	14	Rhode Island...	1	—
Indiana.....	30	4	South Carolina..	1	—
Iowa.....	32	7	South Dakota...	12	1
Kansas.....	29	3	Tennessee.....	7	—
Kentucky.....	8	—	Texas.....	30	28
Louisiana.....	4	—	Utah.....	1	—
Maine.....	3	2	Vermont.....	5	2
Maryland.....	4	4	Virginia.....	9	3
Massachusetts..	2	3	Washington.....	14	9
Michigan.....	36	2	West Virginia...	8	3
Minnesota.....	22	14	Wisconsin.....	28	12
Mississippi.....	1	—	Wyoming.....	4	2
Missouri.....	19	12			
Montana.....	12	1	Alaska.....	—	4
Nebraska.....	19	—	Dist. of Columbia	—	1
Nevada.....	1	—	Hawaii.....	—	1

Montgomery Ward & Co., Incorporated

DIRECTORS

SEWELL L. AVERY, *Chairman*

DAVID A. CRAWFORD

HAROLD L. PEARSON

HARRY P. DAVISON

*SILAS H. STRAWN

PERCY B. ECKHART

JAMES W. THORNE

CHARLES F. GLORE

EUGENE R. WIMMER

*Chairman, Executive Committee

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HAROLD L. PEARSON...*Vice-President & Treasurer*

CLEMENT D. RYAN.....*Vice-President*

EUGENE R. WIMMER.....*Vice-President*

CHARLES W. HARRIS.....*Vice-President*

PHILIP W. HARRIS.....*Vice-President*

HOWARD W. JORDAN.....*Vice-President*

HAROLD E. MACDONALD.....*Vice-President*

EARL G. WARD.....*Controller*

STUART S. BALL.....*Secretary*

LESLIE F. CREWS.....*Assistant Treasurer*

ALBERT T. HUIZINGA.....*Assistant Treasurer*

ROBERT S. SMITH.....*Assistant Treasurer*

JOHN A. BARR.....*Assistant Secretary*

RALPH G. CRANDALL.....*Assistant Secretary*

Transfer Agents

MONTGOMERY WARD & Co., INCORPORATED, CHICAGO, ILL.

MONTGOMERY WARD & Co., INCORPORATED, NEW YORK, N. Y.

Registrars

THE FIRST NATIONAL BANK OF CHICAGO, CHICAGO, ILL.

BANKERS TRUST COMPANY, NEW YORK, N. Y.

